

# UK Steel Submission

## TF0006 – Steel Safeguards

### Introduction:

This submission to the transition review of the UK Steel Safeguard Measures (TF0006) supplements UK's formal response to the Interested Party Questionnaire submitted 11 December 2020, providing further information on some of the points made in our first submission as well as addressing factors discussed in a meeting between UK Steel and TRID on 24 February 2021. In brief, these points are as follows:

- Assessing an increase in imports at a global, product family, or product category level
- An explanation of the methodology applied by the International Steel Statistics Bureau (ISSB) in arriving at UK import statistics
- Economic Interest Test – additional information
- Addressing the Northern Ireland situation
- A reassessment of developing countries exemptions
- Adjustment Plans

### Assessing an increase in imports:

As detailed in its principal submission to this transition review (dated 11.12.2020), UK Steel strongly believes that the assessment of an increase in imports should be assessed primarily in relation to all categories as a single group, supplemented by an analysis at the level of the three product families (flat, long and tubes). As explained in UK Steel's principal submission, Regulation 49<sup>1</sup> is ambiguous as to which measure of imports should be the subject of the inquiry, by stating that the review should consider goods belonging to "each specified category". UK Steel would like to supplement comments made in its principal submission on this issue with additional analysis on the highly interconnected nature of steel production which further supports the point that TRID should assess the increase in imports at the global and product family level.

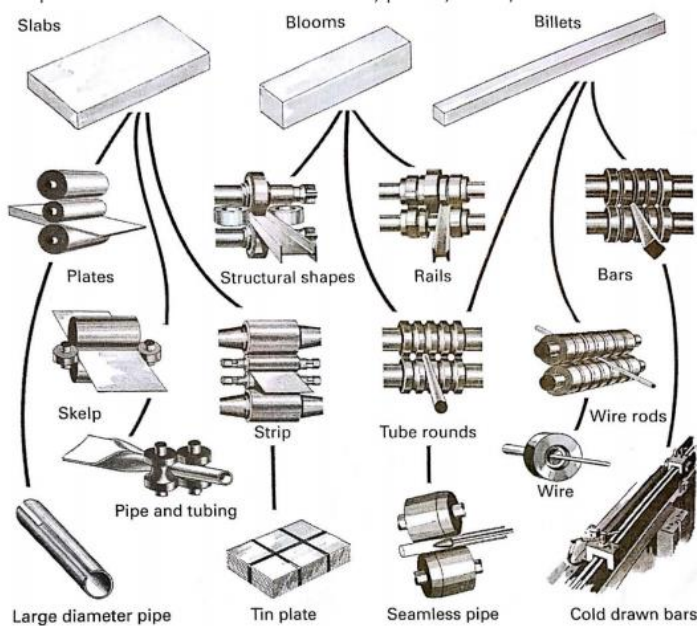
### Interconnectivity of steel products:

The high interconnectivity of steel products means that product categories assessed independently from each other will not provide an accurate or complete assessment of the threat of an increase in imports and the injury that would be caused to the UK sector and individual companies within it. Steel production can come through a variety of different routes, largely depending on the kind of semi-finished product (slab, bloom, billet) that a plant is set up to make. As shown below, slabs are rolled into a variety of flat products, blooms into sections and rails, billet into various long products, while tubes can come via either the long products or the flat products route.

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<sup>1</sup> In this submission all references to Regulation xx shall refer to regulations from The Trade Remedies (Dumping and Subsidisation) (EU Exit) Regulations 2019

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The products are in this sense highly interrelated, with the dynamics of the market for one product (i.e. one of the 19 categories detailed in the UK measures) having a notable impact on others. For example – in a situation in which measures on hot-rolled coil (HRC - cat 1) are removed, but measures on some other flat products are retained, we would likely see a surge in imports of HRC and reduction in the UK prices for this product. Not only will the price reductions in this product category flow through to other flat product categories (see chart below) but the injury caused to the HRC element of a business will not be restricted to that business unit but will impact adversely on others as well. In the UK, the producers of HRC are also the producers of cold-rolled, coated products, and tube products. If the HRC part of the business suffers so will the others, indeed many of the products will be made on the same site.

## **Chart – N European ex-work prices for key flat products, 2018 to 2021 – Removed in non-confidential version, copyright of Kallanish**

The production economics of the steel making process means that economies of scale are key. Companies will produce more than one product and will often rely on all product lines running at high-capacity utilisation rates to ensure profitability. Steel making is highly capital intensive and with particularly high fixed costs, especially for the blast furnace route. This means that an integrated steel plant will typically need to run at around a 70-75% capacity utilisation rate before it will break even and begin to operate profitably. Blast furnaces run continuously as the refractory linings of both the blast furnaces and other high temperature processes (notably the coke ovens) will be destroyed if allowed to cool. Electric arc furnaces have some greater flexibility, but there are still considerable efficiency gains from running at high capacity.

Thus, both the processes themselves, and their economics, require the plant to run at consistently high output levels and limit the ability to adapt to changed market conditions by reducing output volumes. This is why steel plants often continue to run even without making a profit. Commodity prices can also be volatile so sometimes it pays to weather a downturn, in expectation that prices might recover, without incurring the cost of stopping and restarting a plant.

This highlights how delicate the balances are and knock-on effects that individual products can have on the overall profitability of a plant. For example, UK wire production may only represent a small portion of the UK steel market, but the upstream wire rod market will be impacted by any increase in imports and loss of profitability for wire. In an integrated facility, this could also impact production economics for

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adjacent product categories, such as rebar and tubes. Even in a non-integrated facility, imports that impact the profitability of a downstream producer will again impact the upstream facilities. It should therefore be clear that measuring imports and assessing injury indicators on a global level or a product family level (flat, long, tube) will better capture the particular nature of the steel sector.

For further information on the economics of steel production please see annex 2.

#### The use of different sets of import data:

In its principal submission, UK Steel presented data from two different sources: that of HMRC (standard trade info data) as well as data sources from the International Steel Statistics Bureau. Critically, whilst the trends are very similar, the ISSB data shows significantly higher levels of import increases during the relevant period than the HMRC data. This is a point of huge significance for any determination TRID may make in this review.

Using ISSB data shows a clear increase in imports between 2013-2017 for the 'global' product group and across the three product families. Importantly, the ISSB data demonstrates that the increase in imports was significantly larger than the standard HMRC would indicate. Whilst we maintain that the global and product family analysis is the correct approach to take, for the reasons outlined above, this dynamic is also clear when examining the data across the 19 different product families.

**Table - Increased imports 2013-17: Global/Product-Family**

	UK Trade Info		ISSB
Category	Non-EU	Non EU+EU	Non EU+EU
Global	56%	18%	25%
Flat	81%	28%	31%
Long	20%	2%	10%
Tube	38%	20%	46%

**Table - Increased imports 2013-17: By product category**

	UK Trade Info		ISSB
Category	Non-EU	Non EU+EU	Non EU+EU
1	8%	5%	9%
2	27%	21%	25%
4	183%	45%	49%
5	3174%	106%	116%
6	55%	-2%	0%
7	17%	11%	14%
12	13%	-6%	11%
13	38%	22%	24%
14	-7%	-17%	-11%
15	140%	45%	27%
16	-41%	-4%	4%

17	14%	0%	5%
19	229%	11%	2%
20	-3%	7%	12%
21	35%	14%	18%
25A	-89%	-72%	-63%
25B	354%	109%	369%
26	111%	40%	44%
27	-20%	-44%	-36%
28	33%	26%	47%

In the immediately preceding table, there are notably three individual product categories (14, 25A and 27) where the ISSB data does not demonstrate an increase in imports. As shown in the table below, when comparing the import trends to relative production (where production data is available) the ISSB data demonstrates an increase in imports for category 25A.

**Table - Increased imports 2013-17: By product category relative to production**

Category	UK Trade Info		ISSB
	Non-EU	Non EU+EU	Non EU+EU
6		2%	
12		6%	
14	-19%	-18%	-22%
16	-39%	-1%	
17		-35%	
20	187%		
25A	92%	409%	580%
27	No Production	Data	Available

*Note – This table displays just those categories where absolute increases in imports were not demonstrated across on or more of the three data sets. Those cells shaded grey denote that for this category and particular data set, an absolute increase in imports is demonstrated in the table above.*

The data sets for these indexed calculations is provided in full in the appendix to UK Steel's principal submission.

### **An explanation for the difference between HMRC and ISSB Data:**

At a meeting between UK Steel and TRID in February 2021, TRID requested further information to explain the differences between HMRC and ISSB data and why UK Steel believes it represents a more accurate picture of UK import trends than the HMRC data alone.

The difference between HMRC data and ISSB data is limited to imports from the EU27 into the UK. All VAT registered businesses are required to declare the value of their intra-EU trade in goods on their VAT returns. Additionally, until 31 December 2020 businesses were also required to provide more detailed statistical returns in their Intrastat declaration, which includes information on volume of trade. However, companies importing into the UK from the EU whose annual value of imports was below a certain threshold, did not have to submit an Intrastat declaration. This was a measure which aimed to reduce the administrative burden from the collection of trade statistics on smaller businesses.

HMRC has raised the Intrastat exemption thresholds over the years, most notably in 2010 and even more sharply in 2014 and 2015. The changes to the UK's thresholds were based on a formula set by the European Commission, which was amended in 2013 to only require Member States to capture 93%

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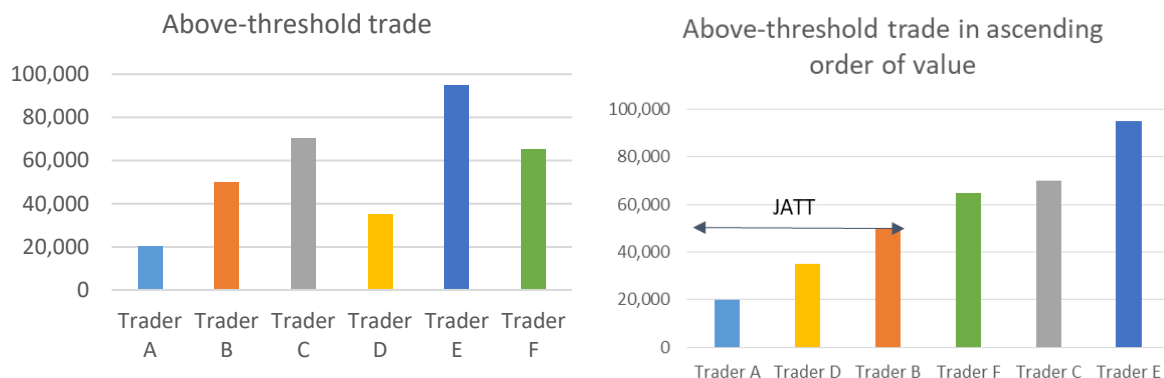
of their estimated trade with other EU states. It had previously been 95%. This means that an increasing volume of imports was not being captured by HMRC statistics, therefore under-reporting the increase in steel imports between 2013 and 2017.

The ISSB data includes HMRC estimates of trade by companies that fall below the threshold. The methodology for the Below-Threshold Trade Allocation (BTTA) is based on the assumption that the allocation of below-threshold trade is equivalent to the allocation of the just-above threshold trade (JATT). The methodology then seeks to infer volume from value.

The steps can be summarized as follows:

1. Obtain the value of below-threshold trade (BTT) from VAT returns
2. Aggregate value of above-threshold trade for each trader and sort in ascending order
3. Select the portion of above-threshold trade that equals or just exceeds the total value of BTT – this represents JATT
4. The trade in the JATT for each country and 8-digit commodity code is then mirrored as the annual BTTA

To illustrate with a simplified example, if VAT returns indicated that the BTT amounted to £100,000, then JATT would correspond to the total volume declared by traders A+D+B below.



The table below shows the value of BTT estimated by HMRC. The ISSB data then uses the methodology outlined above to translate this into volumes of steel, which it then includes in its UK import estimates. It is clear that from 2014 onwards the value of trade that is not reported and therefore included in HMRC statistics has increased considerably. Not including the increasing volumes of steel that fall below the threshold between 2013 and 2017 in the analysis of an increase in imports leads to notable under-estimate of the severity of the situation.

As demonstrated by the data presented in our principal submission, the ISSB data estimates that 156,860 tonnes of steel across the 19 product categories was imported into the UK in 2013 that was not accounted for by the HMRC trade data. By 2017 this unaccounted-for data had increased to 542,548.

**Table - Comparison of HMRC and ISSB Data for UK imports of steel 2013 to 2017 – ISSB copyrighted data removed from non-confidential version**

	2013	2014	2015	2016	2017
<b>ISSB Data - Imports for all categories (Tonnes)</b>					
<b>HMRC Data - Imports for all categories (Tonnes)</b>	4,947,945	5,875,304	5,681,760	5,967,872	5,855,151
<b>Difference (Tonnes)</b>					

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<b>Difference (%)</b>					
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Source: ISSB and HMRC Data – UK Steel Analysis. See Tab 7 Annex 1 for details

Taking the BTT trade into account offers a more accurate picture of import flows for the period prior to the UK leaving the EU and therefore UK Steel asks TRID to fully make use of the ISSB data presented by UK Steel in making its determination of whether an increase in imports occurred.

**Table - Below threshold steel allocations 2013-2017**

<b>72 Iron and steel</b>	<b>2013</b>	<b>£139,861,850</b>
<b>72 Iron and steel</b>	2014	£254,510,942
<b>72 Iron and steel</b>	2015	£258,981,597
<b>72 Iron and steel</b>	2016	£325,393,419
<b>72 Iron and steel</b>	2017	£319,463,946
<b>73 Articles of iron or steel</b>	2013	£329,933,621
<b>73 Articles of iron or steel</b>	2014	£501,557,470
<b>73 Articles of iron or steel</b>	2015	£584,652,355
<b>73 Articles of iron or steel</b>	2016	£679,734,988
<b>73 Articles of iron or steel</b>	2017	£832,690,762

Source: HMRC

UK Steel would also like to submit a corrected version of two tables (21 and 26) from the Appendix of our principal submission:

**Table 1 - Non-EU Imports by Product Family (tonnes)**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Jun19-Jul20</b>
<b>Flat</b>	712,893	991,568	844,148	1,092,076	1,287,213	1,015,469	993,526	813,008
	100	139	118	153	181	142	139	114
<b>Long</b>	342,904	650,988	638,802	457,871	412,515	508,502	415,373	345,917
	100	190	186	134	120	148	121	101
<b>Tube</b>	284,052	393,161	333,342	357,012	392,566	355,201	372,217	305,202
	100	138	117	126	138	125	131	107

**Table 2 -UK Total Imports (including EU) by product family (tonnes)**

	2013	2014	2015	2016	2017	2018	2019	Jun19-Jul20
Flat	2,806,606	3,280,494	3,208,475	3,628,510	3,587,651	3,483,954	3,184,098	2,505,419
	100	117	114	129	128	124	113	89
Long	1,668,576	1,987,192	1,868,437	1,678,915	1,700,915	1,746,013	1,659,581	1,406,765
	100	119	112	101	102	105	99	84
Tube	472,762	607,617	604,847	660,448	566,585	505,696	514,287	463,218
	100	129	128	140	120	107	109	98

## Economic Interest Test:

UK Steel has expanded its analysis from its principal submission with regards to the economic interest test to include more granular analysis per product category and region.

### The Importance of the UK steel industry:

- The UK steel industry employs some 33,600 people in total across the UK – jobs that would be at risk if the measures were removed<sup>2</sup>
- The UK steel industry also supports a further 41,933 in its high-value supplies chains
- The steel industry is predominantly based in the regions of the country the Government is seeking to level-up. We directly employ tens of thousands of skilled workers in Teesside, Yorkshire and Humberside, the West Midlands and Wales. The mean wage of our workers (£35,485) is 12% higher than the UK national mean and 32% and 26% higher than the regional mean in Wales, and Yorkshire & Humberside respectively
- The median values for these figures are even more stark with the median steel wage sitting at £34,299 in 2020, 33% higher than the national median (£25,780), and 44% higher than the median wages in Wales (£23,665) and Yorkshire and Humberside (£23,836).

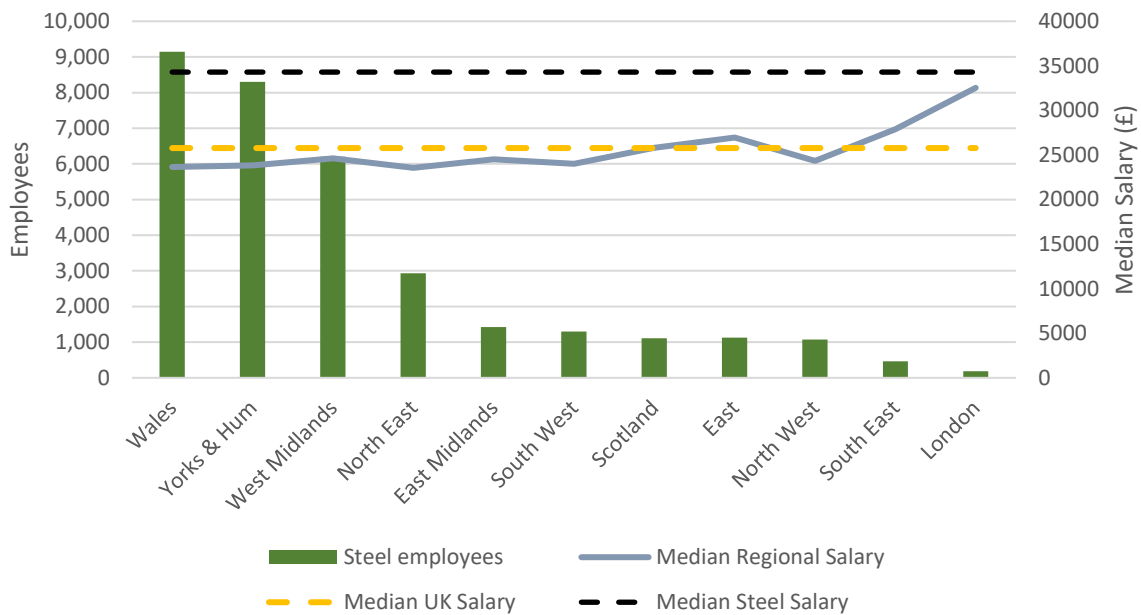
All data can be found on tab 8 of Annex 1 to this submission.

### Chart - UK Steel Employment and Median Pay

<sup>2</sup> ONS – Business Register and Employment Survey 2019 and ONS Type 1 employment multipliers



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Source: ONS Various and UK Steel Analysis See Tab 8 in Annex 1 for data

Further to the points above on jobs and wages:

- The UK Steel Industry makes a £2.1 billion direct contribution to UK GDP and supports a further £2.7 billion in its supply chains <sup>3</sup>
- We also make a £1.7 billion direct contribution to the UK's balance of trade<sup>4</sup>, critical to the Government's ambitions of developing a more a global trading Britain.
- We train hundreds more skilled individuals every year, providing the United Kingdom with the engineers of the future. Approximately 65% of the technical workforce is educated to degree level, and around 40% possess a postgraduate qualification. By working together, Government and industry can ensure that we go on providing high-quality employment and opportunities.
- We provide the high-quality materials vital to an array of challenges. From delivering the Government's infrastructure revolution to creating a low carbon economy, steel is an essential ingredient. The UK directly consumes 10-11 million tonnes of steel each year on average – in infrastructure, construction, and a vast array of manufactured products. Our increasing need for steel in high-speed rail, energy efficient buildings, low-carbon and electric vehicles, wind-turbines and much more besides means this demand will grow 10% this decade creating a huge £6 billion annual market. It is vital that we retain a strong and resilient steel industry in the UK to supply this.

### The importance of UK steel at local authority level and per product category:

The steel industry provides significant employment opportunities across the regions where operations are located and offering wages considerably higher than the local average. The contribution to the local economy is even more prominent when considering that plants are by and large located in less advantaged areas of the UK which the government is seeking to level up.

<sup>3</sup> ONS GDP Output – low level aggregates 2020 and type 1 multiplier

<sup>4</sup> International Steel Statistic Bureau – UK steel exports net of import of raw materials/inputs



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The median wage of a UK steel worker is on average 54.6% higher than the median wage within each of the local authorities listed below. In most cases this sits above the 70<sup>th</sup> percentile of the local wage distribution.<sup>5</sup>

**Table – UK steel sector wages in comparison to local averages – Confidential information removed**

Local Authority	Avg of Median Wage Steel (£)	Avg of Median Wage Local Authority (£)	Steel Wage Higher Than Local Authority %	Steel Wage Ranking Within Local Authority
<b>Carmarthenshire</b>		23,274		Above 80th percentile
<b>City of Cardiff</b>		25,000		Above 50th percentile
<b>Corby</b>		25,874		Above 75th percentile
<b>Flintshire</b>		26,757		Above 75th percentile
<b>Hartlepool Borough</b>		20,000		NA
<b>Neath Port Talbot</b>		23,543		Above 75th percentile
<b>North Lanarkshire</b>		26,519		Above 60th percentile
<b>North Lincolnshire</b>		25,175		Above 80th percentile
<b>Redcar &amp; Cleveland</b>		20,741		Above 75th percentile
<b>Rotherham Met.</b>		22,183		Above 70th percentile

Source: Company data, ONS - Earnings and hours worked, place of work by local authority, UK Steel analysis. Data can be found on Tab 9 of Annex 1 of this submission.

- In Hartlepool, a steel worker's median wage is almost [redacted] the local median wage, while Hartlepool is the 25<sup>th</sup> most deprived local authority (out of 317) in England, based on the 2019 English Index of Multiple Deprivation (IMD) which assesses a range of indicators including income, employment, health and education.
- In Redcar and Cleveland, [redacted] steel workers are employed enjoying a median wage that is [redacted] % higher than the local median wage, in an area that ranks 62<sup>nd</sup> most deprived in the IMD ranking.
- In North Lincolnshire, [redacted] steel workers receive a median wage that is on average [redacted] % higher than the local median, in an area that ranks 120<sup>th</sup> most deprived in the IMD ranking.

The Welsh equivalent index follows a different methodology and is not directly comparable, but most of Wales had Assisted Area status under European state aid rules, including local authorities Neath Port Talbot, Blaenau Gwent and Carmarthenshire which were defined as 'a' areas. These are areas that qualified for the maximum level of aid intensity as their GDP per capita was below 75% of the EU average. While this legislation is no longer relevant for the UK, the classification is indicative of less advantaged local economies. Steel wages are also consistently higher across the product categories,

<sup>5</sup> ONS – Earnings and hours worked, place of work by local authority: ASHE Table 7

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based on available wage information. Data pertaining to these points can be found on tab 10 on Annex 1 of this submission.

### **Chart - Median steel wage vs median local authority by steel product category – Removed from non-confidential version**

*Source: Company data, ONS - Earnings and hours worked, place of work by local authority, UK Steel analysis. Data can be found on Tab 11 of Annex 1 of this submission*

The economic consequences of injury and closure of domestic steel production facilities will in many cases not be limited to the loss of employment and considerably above average wages in the immediate locality but also potentially other facilities further upstream which often supply other plants for further processing of steel products. For example, Tata Steel's Port Talbot plant and British Steel's Scunthorpe facility produce a variety of semi-finished products, a portion of which is regularly absorbed by other domestic facilities, meaning that closure of a processing plant would have a wider economic impact. The importance of these companies and the jobs they provide to local communities is further stressed by comments from local MPs and all three steel unions – these letters and statements have been provided on a confidential basis as Annex 3 to this submission.

### **Continuation of UK Safeguards would not result in constraints on UK import needs:**

A continuation of the safeguard measures would not result in a restriction in imports of steel into the UK relative to its consumption requirements. The TRQs are currently set at a level some 11% higher than the historic (2015-2017) import levels and UK steel demand is expected to be significantly below those levels for at least 2021 and 2022.

**Table – UK Steel Demand 2015-2021 actual and projected – copyrighted by ISSB**

	UK Steel Demand (MT)	% Increase/decrease from previous year	As % of 2015-2017 demand
<b>2015</b>	(10,000,000-11,000,000)		
<b>2016</b>	(10,000,000-11,000,000)		
<b>2017</b>	(10,000,000-11,000,000)		
<b>2018</b>	(10,000,000-11,000,000)		(100%-110%)
<b>2019</b>	(10,000,000-11,000,000)		(90%-100%)
<b>2020</b>	(8,000,000-9,000,000)		(70%-80%)
<b>2021</b>	(9,000,000-10,000,000)		(80%-90%)

*Note – these figures represent actual and projected demand figures for total steel consumption. They include some products not included within the steel safeguards – but provide an indication of the overall demand trend for steel in the UK. Data can be found on tab 1 of Annex 1 of this submission.*

Whilst some steel consumers and importers have expressed concerns that the quotas will restrict imports into the UK, these concerns are unwarranted. Quota levels are based on imports from a period of time (2015-2017) in which demand was higher than it will be for any likely period of the safeguards extension.

Notably we are aware that consumers in the construction sector have recently reported steel supply issues and raised concerns over high steel prices, with some attributing them to steel safeguards. Whilst the increases in prices and tight supply currently are correct, their attribution to safeguards absolutely is not. Recent tight supply is not steel specific but spans most construction materials as a result of stronger than expected demand recovery as the construction sector makes up for the slower activity of 2020. Some of the strong demand reported for March in particular, has also been linked to restocking

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so is likely short-term and not indicative of a long-term trend. On the other hand, demand from the automotive sector does not match the strong demand from the construction sector, with UK car manufacturing still down significantly on historic production levels.<sup>6</sup>

Steel demand in China (accounts for around half of global production and demand) is also playing a strong role in supply and prices across global markets, including in the UK. High steel prices are not a UK or even EU specific trend, but a global one, driven primarily by strong demand for steel in China which has grown considerably this year driving up the cost of raw materials. China became a net-importer of steel for the first time in 11 years over June-September last year and considering the relative size of the Chinese market, such a shift is enough to alter global balances. High raw material prices, combined with the effect of COVID-19 on European supply, has also seen regional fundamentals tighten. This was the result of demand recovering more quickly than expected following COVID-19 restrictions while producers have been unable to react quickly enough to the change in demand following previous production cutbacks. While some of the regional supply and demand balances are likely to recalibrate in the next few months, the global dynamics are likely to remain unchanged and continue to exert upward pressure on prices.

## **Global Steel export prices – Chart removed in non-confidential version, copyright of Market Price Index**

## **EU & UK HDG prices – Chart removed in non-confidential version, copyright of Market Price Index**

It is therefore clear that high steel prices and supply constraints are not the result of safeguards but these measures are essential for the survival of the domestic UK steel industry.

In addition to the fact that recent supply issues have been neither steel or UK specific and therefore are evidently not attributable to UK Steel Safeguards, the actual data from the utilisation of the UK's TRQs is also telling. The first quarter of data from HMRC's monitoring database show that all UK import quotas except for one product category remained open, with most product categories having ample room for imports. Across all product categories an average of 43% of quotas remained unused and available to carry over in the next quarter. Even if some of the origins within each category were exhausted, other origins remained open for tariff-free imports and ample capacity remained within domestic mills. Full data for the utilisation of TRQs in Q1 of 2021 can be found in tab 13 of Annex 1.

As stated previously, the recent demand surge is unlikely to be sustained and therefore does not change expectations for the year. It is also described as a surge in relative terms - compared to the severely subdued demand of 2020. It should therefore be clear that with overall weaker demand in historical terms, and with current TRQs still allowing for some 11% increase in imports above those historic levels, the safeguard measures will not act to constrain supply in terms of the needs of the UK market. Indeed, as updated figures in the annex to this submission show, a combination of low demand plus a possible further 3% liberalisation of TRQ levels would allow for an import penetration level equivalent to 79% in 2021 compared to those of around 60% seen in 2015-2017.<sup>7</sup> Add to this spare capacity available in UK steel mills and it is clear the safeguards will not constrain supply to the UK market if extended.

Moreover, it is important to note that a fair assessment of the impact of steel safeguards on UK imports cannot be made looking at the UK in isolation but must consider the broader trading landscape in terms

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<sup>6</sup> SMMT data shows YTD car manufacture is down 20% compared to 2020, whilst 2020 total production was down 29% of 2019. <https://www.smm.co.uk/vehicle-data/manufacturing/>

<sup>7</sup> See Tab 1 of Annex 1 for import penetration data

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of the main steel consuming countries or blocs globally. For example, if the US and the EU both maintain trade defence measures alongside the UK, there is unlikely to be a considerable change in trade flows into the UK. Likewise, if both the US and the EU remove trade defence measures alongside the UK. Should however the UK remove trade defence measures unilaterally, then there is a distortion to trading dynamics, which would undoubtedly result in diverted volumes flooding the UK market and causing injury to UK domestic producers. It is this prospect of increased imports that UK Safeguards would shield from, rather than restrict imports that would enter the UK market under 'level-playing' circumstances.

At the time of writing, there is no indication that US President Joe Biden intends to remove US 232 tariffs in the near future in light of other priorities. Indeed, President Biden has committed to a full review of the Section 232 tariffs<sup>8</sup> in due course and consequently there is no change to the tariffs expected in the short term, certainly not during the time remaining for TRID to make determination in this review. Meanwhile in the EU, the extension of safeguards is garnering support with 12 Member States having signed a letter urging the Commission to extend the measure. These countries are Italy, Germany, France, Slovakia, Luxembourg, Finland, Hungary, Poland, Spain, Czech Republic, Belgium, and Bulgaria who represent 82%<sup>9</sup> of the EU crude steel production. Consequently, the Commission is currently undertaking an extension review which will naturally reach a conclusion some time before the end of June. This decision may come in time for TRID to take this into account in its own review, but it cannot be guaranteed. In these circumstances, the only sensible cause of action is to make assessment on the likely worse case scenario (i.e. that both the EU and US retain measures) and make necessary adjustments at a later date if this situation is not realised.

There is naturally a question about the application of TRQs to specific products that the UK industry does not produce, or does not produce a like product. The steel industry is entirely supportive of TRID proposals to examine which tariff codes may be superfluous to the safeguarding measures and should be removed. Provided there is no UK production, and the goods specified to be removed from measures are not in competition with those that are – UK Steel would be supportive of modifying the safeguards to this effect.

#### **UK industry is able to respond to supply needs, opportunity in under-utilised capacity:**

As TRID will have seen from the questionnaire response from UK Steel producers there is significant available capacity to provide further supply to the UK market. An amalgamation of responses from UK producers indicates an average of [redacted]% of capacity utilisation for each individual product category. Naturally it does not mean an ability to produce [redacted]% more of every product at one time (many production lines will double-up, producing different products at different times), but rather serves as an indicator of the significant amount of flexibility that exists to increase production of any one particular product if the market requires.

#### **Chart - UK Steel Capacity Utilisation Q2 2020 – Removed in non-confidential version**

*Source: Company data, UK Steel analysis. For Data please see Tab 14 of Annex 1.*

More straight forwardly the UK steel sector has a total annual production capacity of 9 to 11 MT. Steel production in the last five years has sat between 7 and 7.6 MT of steel, meaning upwards of 20 to 40% additional steel making capacity is consistently available to meet market demand.

#### **Chart – UK Steel Production and Spare Capacity – 2016 to 2020 Removed in non-confidential version**

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<sup>8</sup><https://www.spglobal.com/platts/en/market-insights/latest-news/metals/111820-section-232-tariff-retention-infrastructure-spending-top-priorities-under-biden-aisi>

<sup>9</sup> Worldsteel association, Steel Statistical Yearbook 2020

This points to enormous potential for UK supply to increase, with the associated benefits of greater high-wage employment opportunities and broader value to the economy, as well as the environmental benefits through more local supply chains that reduce the carbon footprint of steelmaking. Other than the opportunity cost of idle capacity, a higher utilisation rate also allows for efficiency gains, which would support the industry's adjustment efforts and its ability to decarbonise.

### **Application of tariffs is highly unlikely but would have negligible impact on consumers**

For the reasons outlined above we believe it highly unlikely that the TRQs, at least at their current levels, would result in the application of the 25% tariffs. A combination of low annual demand, additional UK production capacity and significantly liberalised quotas mean UK demand for steel would need to recover (and grow further) at an unlikely rate before there would be any danger of tariffs being applied to imports.

However, in the unlikely event that quotas were exhausted and there was no UK supply available – the impact on consumer prices, and even production costs would be extremely small – steel is an extremely cost effective material and as such makes up a very small proportion of the costs of the products it goes into. Here we provide two familiar examples:

#### **Automotive:**

- On average a car contains 900kg of steel
- Imports for Metallic Coated Sheet, a key input into the automotive sector, was within estimated UK quota levels in 2018/19 and the quotas have been further liberalised since. But even assuming a 20% surge in demand above historic levels (i.e. 20% increase in both imports and domestically supplied) - it would mean just 5% of the MCS steel consumed in the UK in 2021 would be levied with a 25% tariff.
- At £650 to £750/tonne price for this product in 2021, it would mean an increase of just £5-15/car.
- Even comparing these costs to a low-cost car of £16,000 – it would represent just a 0.03 to 0.09% increase in final cost.
- This is extremely low in comparison to the additional import costs UK manufacturers have faced since the start of this year as result of the new trading arrangements with the EU agreed by the UK Government.

#### **Construction:**

- The Shard contains 12,500 tonnes of sections and 1,000 of rebar and cost an estimated £435 million<sup>10</sup> to construct.
- Imports for both sections and rebar was within quota levels in 2018/19 and the quotas have been further liberalised since. Considering that overall demand for these construction products is likely to be lower across 2021 and could take two to three years to recover back to 2019 levels, 2021 quotas are unlikely to fill completely, and there is also domestic spare capacity.
- But even assuming an implausible 20% surge in demand above historic levels (i.e., 20% increase in demand for both imports and domestically supply) - it would mean just 5-10% of the sections consumed in the UK in 2021 would be levied with a 25% tariff and 0% of rebar would be.

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<sup>10</sup> [https://www.designingbuildings.co.uk/wiki/The\\_Shard](https://www.designingbuildings.co.uk/wiki/The_Shard)

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- At an estimated £500 to 650/tonne price for sections in 2021 it would mean just an increase of 0.02 % to the total cost of £435 million for building the Shard.

For calculations, please see Tab 2 of the accompanying annex.

These highly unlikely, but negligible increases in costs must be weighed against the profound damage to the UK steel industry that will occur if safeguards are not continued and imports increase. It should be remembered that the safeguards will be a temporary relief measure to allow industry to adjust and adapt to new market conditions. The benefits of allowing the industry to do this (including supported jobs, retention of a steel sector, multiple manufacturing and construction supply chain benefits) far outweigh any potential negative impact measures may have.

Many manufacturing sectors continue to sit behind tariffs that afford them some protection from surges in imports – the steel industry does not have this luxury and it therefore requires temporary and emergency measures from time to time to act as a ‘safety valve’.

### **A Balance of Interests:**

In examining the balance of interests between steel producers and steel consumers we would conclude with the following points:

- Steel safeguards are there precisely to guard against an increase in imports. Whilst some consumers may express concerns that an extension of the measures may act to limit imports and harm their interests, this is not sufficient to demonstrate that it is not in the UK’s economic interests to extend the measures.
- As detailed above, we believe that the current TRQ levels, the significant liberalisation that has already taken place, the low demand levels projected for this year and next, and the spare capacity available in UK steel mills means that the safeguard measures will not reduce supply of steel from either imports or domestic producers compared to recent years.
- The only scenario in which we can envisage the safeguard TRQ levels being exceeded, and tariffs applied is in a dysfunctional global marketplace in which the EU and US retain their measures and the UK does not. In such a scenario the safeguards will be effective at limiting oversupply to the UK market and causing serious injury to UK producers. In this way, the safeguards would prevent some UK consumers taking advantage of a global trading dynamic tipped strongly against UK steel producers – but it would clearly be in the UK’s long term economic interests that the measures do precisely this.
- As demonstrated in the examples above, in the unlikely scenarios in which some UK steel consumers did have to pay tariffs on a small percentage of imports, the overall impact on their production costs and on the prices faced by the end consumer would be negligible.
- The alternative, of removing the safeguards, could potentially see UK steel consumers take advantage of modestly reduced prices for short period of time – but at the expense of decimating the UK’s steel industry which would ultimately be far more harmful to UK interests (including those of their customers) in the long term. Moreover, with high-steel prices across the globe being driven by forces far beyond the UK, it is unlikely a removal in safeguards would provide much of a price advantage to UK consumers.
- In short, it is clearly in the economic interests of the UK to retain these measures.

### **A domestic UK steel industry is central to any decarbonisation plan**

Steel is central to the construction of a new decarbonised energy system, energy efficiency buildings, and electric vehicles. For example, wind turbines are highly dependent on steel, as about 90% of wind turbine towers are tubular steel towers, with the nacelle encompasses some of the highest-value steels, such as electrical steels. The turbine generator is made of 65% steel, and the offshore wind foundation

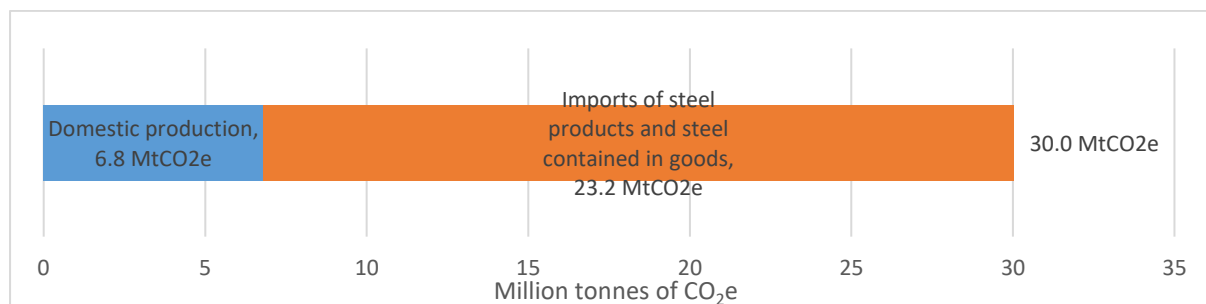


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are almost completely made of steel. Add to this, steel is endlessly recyclable, as over 99% of steel from scrap cars is recycled, and 96% of steel from buildings is recycled or reused.

Related emissions must be split between territorial-based (i.e. emissions arising from domestic production) and consumption-based (i.e. emissions arising from all the products and services the UK consumes). In 2019, the UK produced 7.3m tonnes of steel, but consumed 16.8m, when accounting for steel embedded in imported products. This would suggest that UK consumption of steel is responsible for 30m tonnes of CO<sub>2</sub>e, rather than the 12m tonnes emitted from the domestic production.

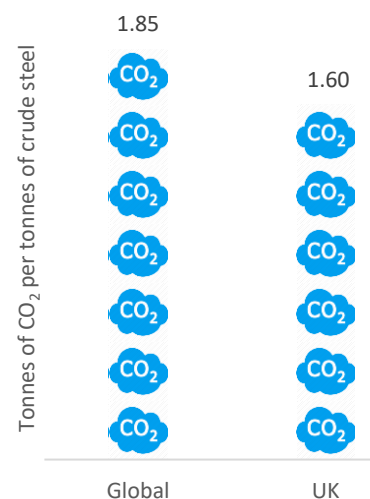
## UK steel consumption emissions, 2019



Source: UK Steel analysis. Direct emissions: Domestic production to the home market, EU ETS; Imported emissions: World Steel. Note: True steel use is obtained by subtracting net indirect exports of steel from apparent steel use to include imported and embedded steel products. The domestic emissions are calculated by subtracting exported steel emissions.

Increased reliance on steel imports could lead to higher emissions if imported steel is produced in a more carbon-intensive steel plant. Global carbon intensity varies from 0.29-3.38 tonnes of CO<sub>2</sub> per tonnes of crude steel, depending on plant efficiency and production method (i.e. BOF vs EAF), with the weighted average being 1.85tCO<sub>2</sub>/tCS in 2018. UK steel production sites are less carbon-intensive than the global average for both BOF and EAF steelmaking, and therefore increases in imports will likely lead to an increase in global greenhouse gas emissions. Additionally, increased imports of finished steel products will also increase transport-related emissions – for example shipping a tonne of product from China will result in an estimated 0.3 tonnes of CO<sub>2</sub><sup>11</sup>. The precise net impact on transport-related emissions of increased imports compared to domestically produced steel is, of course, more complex and must take account of the shipping of raw materials to make the steel and the density of products. However, given that most BOF producers in the world import raw materials and significant quantities of steel in the UK are produced from domestically produced scrap (with the potential for more), it is evident that transporting increasing volumes of finished steel products to the UK would thus lead to more emissions than transporting raw materials and produce steel products in the UK.

## GHG Emissions per tonne of steel produced



Given this picture of lower production and transport-related emissions from domestically produced steel, it should be a clear policy aim of the Government to encourage and facilitate the greater use of UK

<sup>11</sup> Defra conversion factor for large container vessel of 0.01267 kgCO<sub>2</sub>e/tonne product/km shipped. Shipping distance from Shanghai to Dover of 22,000 km. Estimated CO<sub>2</sub>e emissions of 278 kg per tonne.



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produced steel. With a well-devised industrial decarbonisation policy framework, it will be possible to drive steel-related emissions towards zero in the years ahead. This is arguably the only way to tackle the UK's steel-related emissions in a meaningful manner that targets a reduction in global emissions, rather than simply one in relation to UK territorial emissions.

## Northern Ireland situation:

Under the terms of the Northern Ireland Protocol, any goods imported into NI from outside of the EU (including GB) that are deemed to be at risk of subsequently moving into Republic of Ireland, or elsewhere in EU, are subject to the EU customs arrangements rather than the UK ones. Crucially, any good subject to an EU trade defence measure is automatically deemed at risk and therefore subject to the EU measures. Consequently, all the time the EU has safeguards on steel products, any steel imported into NI (from outside the EU) is considered to have entered the EU customs territory not the UK's and therefore is not registered against any UK quotas.

To complicate matters, the EU has informed the UK Government that the terms of the NI protocol also mean that any goods entering NI (from outside EU) are not able to make use of the EU tariff free quotas – so in the case of the steel safeguards, such goods should be automatically subject to the out of quota 25% rate. The UK Government has put in place an 'interim' solution' for the time being to prevent movements of steel from both GB and the rest of the world from being automatically levied with a 25% tariff, but the situation remains that no steel products entering NI (including those from the EU) are registered against the UK's TRQs.

Discussions are ongoing between the UK and EU about reaching a solution to the problem, but these do not seem set to arrive at a conclusion at any time soon. Even if a solution is found in relatively short order, the terms of the NI Protocol and the need to avoid any border checks on the island of Ireland, are likely to mean that imports of steel from the EU to NI (including anything in transit through GB) will continue to be exempt from the UK's safeguards and registration against TRQs.

As such the UK's TRQs are currently oversized and will continue to be so all the time UK safeguards remain in place or until a suitable reduction in TRQs is made. The UK's TRQs were set based on all the 2015-2017 imports in UK (i.e., England, NI, Scotland, and Wales). If the imports into NI are not to be registered against any UK TRQs, then it means the NI portion of the quota will instead be consumed by additional imports into GB. By way of example:

- Total UK TRQ is based on = 2015-17 Imports in GB (95%) + 2015-2017 Imports in NI (5%).
- 100% of UK TRQ will now be consumed by just the GB market (95% of total UK)
- This give rise to a 5.3% increase in the quota over and above what it would have been if the TRQs had been based just on the GB market. ( $100\% - 100\% / 95\% = 5.3\%$ )

*Note – figures here are for demonstration only, not intended as and actual representation of the distribution of imports between GB and NI.*

Calculating the necessary decrease in the TRQs will not necessarily be straightforward. Import data for just NI is likely to be insufficiently accurate (particularly with regards to origin) and will not capture steel imports that passed through UK customs in GB and then moved freely into NI. Given these difficulties the most sensible approach would be to remove or reduce the future liberalisation increases to account for the current oversize of the GB TRQs.

## Developing Country Exemptions:

The WTO's Agreement on Safeguards includes a requirement to exempt developing countries that represent less than 3% of total imports. For the safeguards, this 3% threshold calculation is done on an

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individual product category basis and most recently has been conducted based on 2019 imports. UK Steel understands that TRID will be reviewing these thresholds.

UK Steel submits that it is important that the list of exempt developing countries for each product category is updated and thresholds are recalculated to reflect more recent data. This is the approach the EU has taken looking to update the list of exempted countries on an annual basis using the previous year's data. These updates are critical as some exempted countries increasingly look to take advantage of this position, often increasing their imports in certain product categories well above the 3% threshold to 'mitigate' the safeguards that have prevented them increasing their exports of other products.

In more normal times UK Steel would request the exempted country list to be updated on the basis of 2020 imports. However, 2020 was a very unusual year and not very representative in terms of trade flows as COVID-19 disrupted both production and demand patterns around the world. Therefore, UK Steel proposes that TRID recalculate the thresholds using import data based on an average of the last three years (2018-2020). This reference period would take into account the most recent information but also calibrating it with some of the historical trends to produce a more accurate picture of 'normal' import flows.

## Adjustment:

Regulation 50 states that the TRA can extend the period for which a tariff rate quota applies to goods, if the TRA consider that:

- a) the tariff rate quota continues to be necessary to prevent serious injury to UK producers and
- b) there is evidence of UK producers adjusting to the importation of the goods.

UK Steel has demonstrated the injury that would be caused to UK producers without the safeguard provisions under questions 7-9 of its principal submission. In terms of adjustment, the transitional provisions do not stipulate how the TRA determines adjustment in terms of explicit measurable criteria. As such, UK Steel submits that there is considerable flexibility in how the TRA determines whether adjustment of the UK producers is taking place.

UK producers have demonstrated adjustment to increased imports to the extent possible and reasonable, especially considering the challenging market conditions due to Brexit and weak demand amid the global pandemic. This has massively impacted cash flow, reduced available capital for investment and notably diverted significant resources and time away from their traditional focus to concentrate on the mountain of changes required post-Brexit. In addition, US 232 tariffs and EU safeguards are arguably a temporary measure which the industry should not be expected to make permanent adjustments for. The extension of safeguard measures would facilitate the continuing adjustment of UK producers to post-Brexit trading, to an increasingly competitive landscape for steel and to carbon-neutral steelmaking.

UK domestic producers have suffered losses in margins and market share in recent years under pressure from low priced imports. As is demonstrated in company individual responses, key adjustments have centred on:

- a) Structural changes - Producers have reviewed their portfolio making decisions to focus their business on core products of strategic significance and shift to a higher value product mix, while selling or looking to sell non-core segments of their business
- b) Productivity improvements and efficiency gains by optimising production processes
- c) Improved cost competitiveness through procurement and employment cost savings
- d) Focus on sustainability – Producers are working to build the foundation for investments required to accelerate innovation and decarbonise

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If the existing safeguard measures were discontinued, this would undermine the benefits being achieved under current adjustment plans. Conversely, the extension of UK safeguard measures would provide a level of certainty that UK markets will not be subject to import surges and price disruption, giving the industry the space to recover and transform.

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